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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 001473

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DEPT PLEASE PASS TO USTDA DANIEL STEIN

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SUBJECT: AMBASSADOR'S INTRODUCTORY CALL ON STATE OIL FUND
EXECUTIVE DIRECTOR SHAHMAR MOVSUMOV

REF: (A) SECSTATE 158764 (B) BAKU 1395 (C) BAKU 1274

Classified By: AMBASSADOR ANNE E. DERSE, PER REASONS 1.4 (B,D)

11. (C) SUMMARY: During her September 29 introductory call on State Oil Fund Executive Director Shahmar Movsumov, the Ambassador stressed the critical role the Oil Fund plays in maintaining macroeconomic stability and in providing a long-term savings vehicle for the Azerbaijani people. Movsumov briefed on Oil Fund operations, noting that current assets total USD 1.5 billion and that Azerbaijan stands ready to receive more than USD 200 billion in energy revenues over the next decade. Movsumov stated that the largest outstanding question remains "how to spend the money?" The Ambassador and Movsumov discussed at length the steps the Government of Azerbaijan (GOAJ) needed to implement in order to prepare the economy for the coming "Tsunami of money." Movsumov highlighted the lack of government capacity in the government, in all sectors, as a major impediment. He stated that the government lacked skilled technocrats to handle Azerbaijan's increasingly complex economy, noting that there is also no government advisory economic body or even effective inter-ministerial process to counsel the president. Movsumov praised the U.S. Trade Development Agency's technical assistance to the Oil Fund and welcomed the proposed visit of TDA Director Thelma Askey to Azerbaijan in December. The Ambassador briefed Movsumov on U.S. efforts to elevate the bilateral economic dialogue, including the development of the Economic Partnership Commission meeting. Movsumov welcomed the EPC concept, noting the value of an elevated dialogue and said that he would be interested in contributing. He will attend the EITI meeting in Norway and looks forward to discussing the EPC with A/S Sullivan there.
END SUMMARY.

12. (C) The Ambassador paid an introductory call on Executive Director of the State Oil Fund Shahmar Movsumov on September 129. Movsumov briefed on current Oil Fund operations, touching upon the Trade Development Agency's phase II technical assistance and the Oil Fund's role in the Extractive Industries Initiative (EITI). Movsumov told the Ambassador that EITI has changed the public's perspective on the Oil Fund and that civil society, NGOs and opposition parties now agree that the Oil Fund is transparent. He added that the largest outstanding question remains "how to spend the money?" Movsumov also briefed on his meetings in New York with EUR A/S Daniel Fried and NSC Director for Eurasia Judy Ansley, noting that it was an "interesting meeting" but that some of the questions went beyond his mandate at the Oil Fund (Reftel A). Movsumov told the Ambassador that he planned to travel to Oslo for the next EITI meeting and that

he looks forward to meeting EB A/S Sullivan there..

OIL FUND BACKGROUND, OPERATIONS AND REVENUE STREAM

13. (C) While relatively new to the State Oil Fund, Executive Director Shahmar Movsumov brings a wealth of knowledge and management skills that will enhance his stature in his new position and assist his role in the government's economic decision-making process. Current assets at the Oil Fund total approximately USD 1.5 billion and the fund's assets are expected to grow exponentially over the coming decade as Azerbaijan's oil revenue steadily increases. In 2009, the GOAJ could receive as much as USD 20 billion in oil revenues and in total the Oil Fund is prepared to receive more than USD 200 billion in overall revenue from the Azeri-Chirag-Guneshli (ACG) oil field.

14. (C) Through the Oil Fund, Azerbaijan has set up transparent procedures to account for its energy revenues. The real challenge lies in ensuring that these funds are utilized correctly by the government once they are transferred to the state treasury for budget support and infrastructure projects. Movsumov is the former Director General of the National Bank and right-hand executive of current National Bank Chairman Elman Rustamov and has a Master's degree in Public Administration from the John F. Kennedy School of Government at Harvard University.

2007 STATE BUDGET

15. (C) Movsumov told the Ambassador that even though the 2007

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state budget was finalized, many ministries were still requesting additional funding, putting more pressure on Minister of Finance Sharifov. Movsumov said that the GOAJ needed to develop a medium-term spending framework and prioritize macroeconomic spending. Movsumov told the Ambassador that the Oil Fund has two primary missions: accumulation of resources and money management for future generations. Movsumov added that the Oil Fund acted to restrain inflation in 2005 and that without it, inflation would have been much higher.

TDA TECHNICAL ASSISTANCE

16. (C) Mosumov welcomed TDA Director Thelma Askey's proposed trip to Azerbaijan in December to participate in the Oil Fund-TDA technical assistance phase II signing ceremony, calling it "wonderful" (Reftel B). Movsumov told the Ambassador that engaging and retaining qualified employees was the most difficult challenge facing the Oil Fund and the government. There is a serious lack of human capacity in the government and the country. He added that the Oil Fund competes for qualified personnel with private banks in Azerbaijan and with international financial institutions. He said the Oil Fund has only 40 employees, half of which are substantive and he recently lost four employees to the private sector. Movsumov said that USAID was reviewing a plan to assist the Fund with employee retention and that the Finance Minister was aware of the problem and may be able to help. The Ambassador raised Overture Financial's offer to provide the Oil Fund with similar World Bank Treasury reserve asset management services. Movsumov said that he would look at Overture's options, although he said that there may be a conflict of interest since Overture is the consultant for the phase II technical assistance.

MACROECONOMIC MODELING UNIT

17. (C) Movsumov told the Ambassador that the BP-funded macroeconomic modeling group at the Oil Fund was operating

and that there would be a ministerial briefing in mid-October (REF C). The macroeconomic modeling unit, according to Movsumov, has provided the GOAJ with "an additional instrument for economic policy making." Movsumov explained that Oil Fund obtained the modeling group because it was a "neutral place" and that the Oil Fund has become the de facto GOAJ coordinator of oil revenue management for "informed decision-making." Movsumov reiterated that the pressure to spend more oil revenue was "enormous," adding that the public is waiting for the oil money to improve its daily lives.

LACK OF CAPACITY HURTING AZERBAIJAN

18. (C) Movsumov said that Azerbaijan is rapidly reforming but that more work still needs to be done. He added that the policy making process is not "prepared to handle" the large amounts of energy revenue inflows. Movsumov highlighted the need for bank/financial sector reform, noting that the government's regulatory tools are weak but getting better. Movsumov noted that in Moody's recently completed rating of Azerbaijan, Moody's highlighted Azerbaijan's lack of capacity in economic decision-making, which he views as the single largest issue for the GOAJ. He continued that Azerbaijan has an increasingly sophisticated, complex economy without experienced technocrats to manage and guide it.

19. (C) In addition, Movsumov said that there is currently no government economic advisory board or effective inter-ministerial policy making process to counsel the president on economic decisions. According to Movsumov, the ability of government managers to comprehend oil revenue management is low; with oil revenues increasing more skilled managers are needed urgently. He briefed the Ambassador on President Aliyev's program to turn "Black Gold into Human Gold" by offering scholarships to students for training and studies abroad. The Ambassador told Movsumov that the U.S. helps GOAJ efforts to send students abroad for training through exchange programs. The Ambassador also told Movsumov about a U.S. program that has trained ministerial interns to work in several different government ministries.

110. (C) In a separate conversation with the Ambassador,

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Movsumov said he had once recommended while at the National Bank that Azerbaijan hire Michael Porter, the Harvard economist who advised Kazakhstan on its reforms.

111. (C) The Ambassador told Movsumov of Minister of Industry and Energy Natiq Aliyev's attempts to develop the non-oil sector. Movsumov questioned whether the GOAJ should be taking a role in such activities, remarking that the market should decide which industries and state-owned properties survive or die. Movsumov believed that both Finance Minister Sharifov and Economic Development Minister Babayev felt the same way that market forces should lead economic development. Movsumov stated that the government should "create the environment" through structural reforms for industry to develop. From this, he opined, macroeconomic stability can be maintained without government interference and distortion.

ECONOMIC PARTNERSHIP COMMISSION

112. (C) The Ambassador briefed Movsumov on U.S. efforts to elevate the bilateral economic dialogue, including the development of the Economic Partnership Commission. Movsumov welcomed the EPC concept, noting that an intensified economic policy dialogue is timely given the looming economic challenges, and he stated that he would be interested in contributing.

COMMENT

¶13. (C) In addition to being a valuable Embassy contact, Movsumov is also one of the few informed voices in the government that advocates loudly for government fiscal discipline, economic reform, market liberalization and improved inter-ministerial coordination in the budget process. Movsumov moved quickly at the Oil Fund to engage on EITI issues. Based on recent Embassy meetings with Movsumov, he is likely to continue the government's strong EITI role and commitment to increased transparency. In addition, he is a valuable proponent of efficient and transparent management and utilization of Oil Fund assets, a key U.S. goal. Now reporting directly to President Aliyev, Movsumov will be a valuable interlocutor.

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